

## Convenience, online security headline 2002 filing season

Last year we gave customers the Direct Filing Portal, a safe, secure and convenient way to file their taxes online with us. This year we've added new payment and service request functions to our website's list of services. These new services will allow you and your clients to conduct commonly performed tax activities at

service number through our website at [www.ftb.ca.gov](http://www.ftb.ca.gov), or by calling our Taxpayer Service Center at 800.338.0505.

Using your clients' customer service numbers, you'll be able to track estimated tax payments as they are being applied to their accounts. You can also use the customer service number to find a client's current balance due, going back as far as five years.

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***...use the customer service number to find a client's current balance due, going back as far as five years.***

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their convenience and make compliance easier than ever.

You and your clients will be able to view balance due and estimate payment information, and initiate electronic debits with banks for the purpose of making tax payments. In most cases, all you'll need is your client's customer service number.

Customer service numbers provide users with the utmost security and convenience when they're doing online business with us. If any of your clients used an online service to e-file last year, they will receive their customer service number in the mail. They can also get their customer



### ***Do we have your current address?***

***Electronic return originators:***  
Help us to help you by making sure we have posted your name and contact information correctly on our website. Go to our website at [www.ftb.ca.gov](http://www.ftb.ca.gov), click on the e-file logo and go to the *Find an Authorized e-file Provider* webpage. Review your information and let us know if we need to update anything for the 2002 filing season. To make an update, contact our e-file help desk at 916.845.0353 or click on *Contact Us*.

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## *Tax News*

Volume 00-1 January/February 2002

**TAX NEWS** is a bimonthly publication of the Communications Services Bureau, California Franchise Tax Board. Its primary objective is to provide information to income tax practitioners about state income tax laws, regulations, policies and procedures.

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For information about a client's account, contact:

**Tax Practitioner Support Unit**  
phone: 916.845.7057  
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For recorded answers to questions on California taxes, to order forms, or to check on a refund, call:

800.338.0505  
From outside U.S. 916.845.6600

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**Electronic Correspondence**  
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# Forms FTB 3805D, FTB 3534 miss cut for 2001 Package X

Due to unresolved technical issues, two of our new forms for tax year 2001 will not be included in the 2001 California Package X. However, they will be available by phone, mail, and through our *Forms and Publications Webpage*, located on the Internet at [www.ftb.ca.gov](http://www.ftb.ca.gov).

They are Form FTB 3805D - *Net Operating Loss (NOL) Computation and Limitation - Pierce's Disease* and Form FTB 3534 - *Joint Strike Fighter Credits*. Here's a brief description of each:

### **Form FTB 3805D**

For taxable years beginning on or after January 1, 2001, and before January 1, 2003, farmers are allowed a deduction for losses sustained due to *Pierce's Disease* and its vectors.

The net operating loss created by the disease may be carried forward for nine years at 100 percent. The net operating loss may be deducted only from income apportioned to the area affected by *Pierce's Disease*.

## ***For faster results, call practitioner hotline; don't send letters with client's return***

The best way to receive specific answers to your clients' questions regarding their tax return or other issues requiring timely action is to contact our Franchise Tax Board Tax Practitioner Hotline at 916.845.7057.

Don't attach a letter to your client's tax return. Often these letters are not answered until they have traveled through our entire return processing system and are ultimately rerouted to our Taxpayer Service Center for reply. This can take many weeks and sometimes the letters are inadvertently filed without a reply. The only exception is if the letter provides an explanation for some information contained in the return.

### **Form FTB 3534**

The *Joint Strike Fighter Credits* provide a wage credit and a property credit under both the Personal Income Tax Law and the Corporation Tax Law. The credit is available for taxable years beginning on or after January 1, 2001, and before January 1, 2006.

No credit is allowed unless the bid which the joint strike fighter contract (or subcontract) is based upon is reduced by the credit amount.

- Joint Strike Fighter Wage Credit is 50 percent of qualified wages paid or incurred in taxable years beginning on or after January 1, 2001, not to exceed \$10,000 for each qualified employee.
- Joint Strike Fighter Property Credit is 10 percent of the cost of qualified property placed in service in California for ultimate use in a joint strike fighter. (For additional information on qualified property, see Revenue and Taxation Code Section 17053.37 [(For individuals) or Section 23637 (For business entities)].

In most cases, our customer service representatives can answer your questions immediately when you call our hotline. And, for those situations when you need to furnish us with additional information, you can send it to us via fax.

If you can't call our hotline, send us your question via fax. Our average turnaround time for responding to fax queries is seven business days. Compare that to our typical 21-day turnaround time for mail sent via the postal service. Our Tax Practitioner Hotline is open from 8 a.m. to 5 p.m., Monday through Friday. You can send us a fax 24 hours a day, seven days a week, at 916.845.6377.

# Change to FTB 3510 may require amended returns for 1999, 2000

Some taxpayers who filed form FTB 3510, *Credit for Prior Year Alternative Minimum Tax – Individuals or Fiduciaries*, may need to file amended returns for tax years 1999 and 2000.

We revised the form, incorrectly, following legislation enacted in 1999.

Assembly Bill 1637 (Committee on Revenue and Taxation), chaptered October 1999, added exemption credits to Revenue and Taxation Code, Section 17039. This section lists credits that can reduce regular tax below the tentative minimum tax.

In connection with this change, we redesigned Schedule P to remove the tentative minimum tax limitation from exemption credits, and changed the form FTB 3510 instructions. The section instructing taxpayers *to include the exemption credits on line 30 along with credits reported in Sections A1 and A2 of Schedule P (540, 540NR or 541)* was removed. These are the credits that reduce excess tax.

On the surface, this change made sense.

The exemption credits are no longer limited by the tentative minimum tax. However, the Schedule P instructions tell the taxpayer to begin the excess tax calculation with the amounts from Form 540, line 24; Form 540NR, line 27; or Form 541, line 21; minus line 22. These lines already reduce regular tax by the exemption credits.

When taxpayers carry the amount from form FTB 3510, line 30 to Schedule P, it has not been reduced by the exemption credits; therefore taxpayers could also inadvertently reduce the tentative minimum tax by the exemption credits.

The language instructing taxpayers to include the exemption credits on line 30 along with credits reported in sections A1 and A2 of Schedule P (540, 540NR or 541) has been added back to the 2001 form FTB 3510, line 30. Clarifications were issued for the 1999 and 2000 tax years.

Taxpayers who incorrectly took advantage of the exemption credits twice on the same tax return should file an amended tax return for that year.

## Manufacturers' Investment Credit website debuts

We now provide comprehensive information about the Manufacturers' Investment Credit (MIC) on our website.

Go to [www.ftb.ca.gov/geninfo/credits/mic/references/index.html](http://www.ftb.ca.gov/geninfo/credits/mic/references/index.html) to access FTB manuals, publications, codes, regulations, notices, and rulings, and several non-Franchise

Tax Board MIC reference materials. If you need additional assistance with the MIC, call us, from within the United States, at 1.800.852.5711. From outside the United States, call 1.916.845.6500 (not toll-free).

For the hearing impaired with TDD, call 1.800.822.6268 and follow the text prompts.

## Ask the Advocate



**Debbie Newcomb**  
Taxpayer  
Advocate

**Q:** I heard that California changed the law regarding how and when it can levy a taxpayer's principal residence for a tax underpayment.

**A:** You're referring to Senate Bill 366 (Chaptered on October 10, 2001), which prohibits us from issuing any levy on a principal residence of an innocent investor for an underpayment for any tax year on or before December 31, 2000, that is attributable to an *abusive tax shelter*.

This law also provides that a lien on that property or the proceeds from the sale of that property shall be released under the provisions of this law, which also extends to liens after bankruptcy. Only an individual(s) who owns the principal residence can qualify as an *innocent investor*.

### Internal Revenue Service criteria for an abusive tax shelter

We use the IRS criteria when determining whether an entity is an abusive tax shelter(s) and if the taxpayer is an innocent investor.

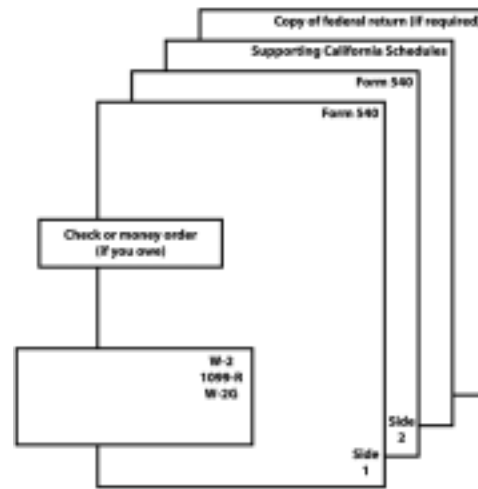
The IRS considers tax shelters to be abusive when a minor investment can bring a large immediate tax deduction, and in most cases is financed with

*Continued on page 6*

# Assemble your clients' returns properly

You can help us provide better customer service by taking the time to assemble your clients' tax returns in the manner pictured at the right. We will be able to quickly identify any special forms associated with their returns and provide you and your clients with faster service.

We encourage you to file your clients' returns electronically whenever possible. To learn more about our e-file program, go to our electronic services website located at [www.ftb.ca.gov/elecserve/index.html](http://www.ftb.ca.gov/elecserve/index.html) or call the e-file helpdesk at 916.845.0353.



## Delivery services need correct FTB address

Please advise your clients that tax returns and correspondence addressed to our Butterfield Street address are at risk of being delayed, miss-sorted or returned to the sender because the United States Postal Service does not deliver mail to that street address.

If you or your clients need to use a private delivery service in order to file a return or to make timely payment, address it to:

Franchise Tax Board  
Sacramento CA 95827

Otherwise, use the address provided on our correspondence and publications.

You can find a list of mailing addresses in various California tax booklets, the California Package X, and on our website at: [www.ftb.ca.gov/geninfo](http://www.ftb.ca.gov/geninfo).

## Interest Rates

For the period of January 1, 2002, through June 30, 2002, the adjusted interest rate on underpayments and overpayments of California income taxes will be **seven percent**. Here is a chronicle of the interest rate since January 1991.

Effective Date	Rate	Effective Date	Rate
1 Jan. 1991 to 30 June 1991	11%	1 July 1996 to 31 Dec. 1996	9%
1 July 1991 to 31 Dec. 1991	10%	1 Jan. 1997 to 30 June 1997	9%
1 Jan. 1992 to 30 June 1992	10%	1 July 1997 to 31 Dec. 1997	9%
1 July 1992 to 31 Dec. 1992	9%	1 Jan. 1998 to 30 June 1998	9%
1 Jan. 1993 to 30 June 1993	8%	1 July 1998 to 31 Dec. 1998	9%
1 July 1993 to 31 Dec. 1993	7%	1 Jan. 1999 to 30 June 1999	8%
1 Jan. 1994 to 30 June 1994	7%	1 July 1999 to 31 Dec. 1999	7%
1 July 1994 to 1 Dec. 1994	7%	1 Jan. 2000 to 30 June 2000	8%
1 Jan. 1995 to 30 June 1995	8%	1 July 2000 to 31 Dec. 2000	8%
1 July 1995 to 31 Dec. 1995	9%	1 Jan. 2001 to 30 June 2001	9%
1 Jan. 1996 to 30 June 1996	9%	1 July 2001 to 31 Dec. 2001	9%

# Make sure your 2001 substitute, scannable forms are approved

If you plan to use substitute and scannable California income tax forms next filing season, be sure that the forms generated by your software program meet our requirements for substitute forms.

All companies that produce or sell substitute and scannable California tax forms must file an agreement with us stating their intent to comply with our requirements for the 2001 tax year. By signing and submitting Form FTB 1096, *Agreement to Comply with Franchise Tax Board Publication 1098*, the company agrees to follow certain rules for developing substitute and scannable forms. However, that's only part of the process software developers must complete to provide you with approved tax forms.

Each year, computerized tax software developers are also required to submit each of their forms to us for our approval before distributing them. If you are unsure whether the forms you plan to use this upcoming filing season have our approval, ask your software provider to show you the *FTB letter of*

*approval* for each form you plan to use *before* you use it. Do not accept a general statement from the software company that all their company's forms have been approved. Instead, give your software company a list of forms you plan to use and ask them to provide you with a copy of the *FTB letter of approval* for each form.

*Companies that either sell or provide photocopies of official FTB forms do not need to submit them for approval.*

Using unapproved forms may seem like a harmless infraction but it's not. Submitting unapproved forms can cause processing delays and in those cases where we can't process the form, we will have to contact your clients directly in order to process their returns.

At press time the following companies had filed a form FTB 1096 with us. Go to *Tax News Online* [www.ftb.ca.gov/education/taxnews](http://www.ftb.ca.gov/education/taxnews) for the most current list of companies.

Company Name	Telephone Number	Company Name	Telephone Number	Company Name	Telephone Number
2nd Story Software, Inc. ....	319.373.3600	NumberGolden State Tax		Regents of the University	
5227 Tax System, Inc. ....	800.592.5227	Training Institute, Inc. ....	847.459.3300	of CA, Los Angeles .....	310.794.8726
Able-Wagner, Inc. ....	714.572.8585	H&R Block, Inc. ....	816.504.1188	Rhodes Computer	
Accountant Stationers		HowardSoft .....	858.454.0121	Services, Inc. ....	706.868.0985
& Printers .....	800.423.9717	Image One, Inc. ....	818.701.3090	RIA .....	800.327.8829
Alpine Data, Inc. ....	800.525.1040	Inland Society of Tax		SDDS Computer Accting ....	909.987.2408
American Financial & Tax ....	714.669.1172	Consultants .....	Not Available	Spidell Publishing, Inc. ....	714.776.7850
Arthur Andersen .....	941.341.5000	Intuit/Lacerte .....	858.784.1545	STF Services Corporation ....	800.541.7197
ATX Forms, Inc. ....	800.944.8883	Integrated Tax Software, Inc.	800.487.8291	The Northern Trust Co. ....	Not Available
Block Financial Corp. ....	617.491.1800	Jackson Hewitt Tax		Tax Biz .....	408.243.1472
C&S Technologies, Inc. ....	408.935.8468	Service .....	Not Available	Tax\$imple, Inc. ....	800.989.8955
CCH, Inc (Torrance) .....	800.739.9998	Jones Lang LaSalle, Inc. ....	312.782.5800	Tax Link, Inc. ....	614.457.1949
CCH, Inc. (Wichita) .....	316.612.5000	Micro Vision Software, Inc. .	631.232.1040	Tax Systems, Inc. ....	Not Available
CFS Tax Software, Inc. ....	800.343.1157	Nelco .....	920.337.1000	Taxware Systems, Inc. ....	800.877.1065
CPA Software .....	850.434.2685	On-Line Taxes, Inc. ....	816.232.0095	Taxworks by Laser	
Creative Solutions .....	800.968.0600	Orrtax Software, Inc. ....	425.649.8291	Systems .....	801.552.8800
Data Technology Group ....	Not Available	Paul Cornish .....	909.678.3561	TMI Tax Services, Inc. ....	952.935.6111
Deloitte & Touche Tax		Petz Enterprises, Inc. ....	209.835.2720	Tritech Software	
Technologies LLC .....	847.236.8000	Pricewaterhouse		Development Corp. ....	800.380.6407
Drake Software .....	828.524.8020	Coopers LLP .....	214.999.1400	Universal Tax Systems, Inc. .	706.232.7757
EXACTAX, Inc. ....	800.583.3536	Pro-BATE Software .....	970.336.5973	Weaver Tax Service .....	408.258.0912
File Your Taxes.Com .....	805.984.0248	Prudential Securities		Xpress Software .....	800.808.1040
		Incorporated .....	Not Available		



# Ask the Advocate: Law aims at abusive trusts

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borrowed money for which the investors are not personally liable.

A *tax shelter* according to the Internal Revenue Code Section (IRC) 6111, is any investment (regardless of whether it is marketed or designed as a tax shelter) that meets the following two requirements:

- The investment is one for which a person could reasonably infer, from representations made or to be made in connection with an offer for a sale of an interest in the investment, that the tax shelter ratio for any investor may be greater than 2 to 1 as of the close of any of the first five years ending after the date on which the investment is offered for sale, and;
- The investment is:
  - 1 Required to be registered under a federal or state law regulating securities, and;
  - 2 Sold under a registration exemption requiring the filing of notice with a federal or state agency that regulates the offering or sale of securities.

The above law also requires promoters or principal organizers to register the tax shelter before any original offerings are made.

In addition to the above, we and the IRS have the authority to impose penalties for *promoting, and aiding and abetting the understatement of a tax liability*: IRC (s) 6700 and 6701, and California Revenue and Taxation Code Section(s) 19177 (*Promoting an Abusive Tax Shelter*) and 19178 (*Aiding and Abetting the Understatement of a Tax Liability*).

Under IRC 6700, the IRS will impose a penalty if the following criteria are met:

- Any person who organizes or assists in the organization of a (1) partnership or other entity, (2) any

investment plan or arrangement, or (3) any other plan or arrangement;

- Participates directly or indirectly in the sale of any interest in an entity or plan or arrangement referred to above or;
- Makes, furnishes, or causes another person to make or furnish in connection with such organization or sale:
  - (a) A statement with respect to the acceptability of any deduction or credit, the excludability of any income, or the securing of any other tax benefit by reason of holding an interest in the entity, or;
  - (b) participates in a plan or arrangement which the person knows or has reason to know is false or fraudulent as to any material, or;
  - (c) a gross valuation overstatement as to any material matter.

Under IRC 6701, the IRS will also assess a penalty, for aiding and abetting the understatement of a tax, against any promoter (or anyone) who advises an investor to participate in an abusive tax shelter; (i.e. certified public accountants, attorney's etc.):

- Who aids in or assists in, procures, or advises with respect to, the preparation or presentation of any portion of a return, affidavit, claim, or other document,
- Who knows (or has reason to believe) that such a portion will be used in connection with any material matter arising under the IRS laws, and
- Who knows that such a portion if so used would result in an understatement of a liability for tax of another person,

The amount of the penalty is \$1,000.

## Who is an innocent investor?

An innocent investor is any person, or the spouse or former spouse of the aforesaid person, who we determine

meets the following criteria:

- Is liable for the underpayment of any tax for any taxable year ending on or before December 31, 2000, that is attributable to ownership of an interest in an abusive tax shelter, and;
- Had no responsibility for the creation, promotion, operation, management, or control of the abusive tax shelter, and;
- During the tax year(s) to which the underpayment described, reasonably believed that the tax treatment of an item attributable to an abusive tax shelter was, more likely than not, the proper tax treatment.

## Collecting the outstanding liability

This law does not cancel the liability attributed to the abusive tax shelter nor does it cancel any other taxes that are owed. This law will not stop us from collecting the underpayment amount attributed to the abusive tax shelter from sources other than the proceeds received from the innocent investor's primary residence.

## Partial lien release

We will only release the lien on the investor's primary residence, and this release does not extend to any other properties that the state tax lien may cover, or the innocent investor may own.

## How the program works

Effective January 1, 2002, to qualify for the return of the proceeds the investor must substantiate their innocence in the abusive tax shelter. The taxpayer must notify us of their request in writing and their request must contain the following information:

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## FTB considers summary schedule W-2 for 2003

E-filers are spared from submitting Form W-2s when filing. Soon, tax practitioners who prepare scannable Forms 540 and 540A, *California Resident Income Tax Return*, could get similar relief.

We are considering adding a new *W-2 Summary Schedule* for tax year 2002 (processing year 2003). Use of the schedule would be strictly voluntary, and would replace paper copies of W-2s for tax returns prepared using tax preparation software.

Use of the schedule to provide W-2 information would be similar to providing W-2 information for electronically filed returns.

Taxpayers and tax practitioners e-filed more than 2.7 million personal income tax returns in 2001.

We believe using this schedule would result in a number of benefits including streamlining the assembly of computer generated tax returns, eliminating delays

in processing caused by accidentally detached W-2s, and fewer taxpayer or employer contacts to verify wage or withholding information. Since much of the information on W-2s should already be inputted, we believe your clients would realize these benefits with little additional data input required for tax practitioners. We welcome your comments about this proposal. Please e-mail any comments to [Jennifer.Sallee@ftb.ca.gov](mailto:Jennifer.Sallee@ftb.ca.gov).

## FTB debuts new head of household webpage

We have a new addition to our Internet website: The *Head of Household Webpage*. The webpage is on our website at [www.ftb.ca.gov](http://www.ftb.ca.gov).

Select *Tax Assistance* on the topic index on the left side of the page, and then

select the *Head of Household* button. The new webpage offers information on the rules for qualifying for head of household filing status, our audit process, answers to frequently asked questions, definitions of terms commonly

used with the head household filing status, and an interactive self-test.

This new webpage is an excellent tool for you to use to ensure the accurate use of the head of household filing status.

## Ask the Advocate: Law aims at abusive trusts

*Continued from page 6*

- Name
- Social security number
- Tax year(s)
- Amount of refund
- A statement as to why they are innocent in the abusive tax shelter
- Substantiation of their innocence in the tax shelter

Mail the request to:

Analysis and Legal  
Franchise Tax Board  
PO Box 2952  
Sacramento CA 95812-2952

### What if we deny the claim?

If we deny the claim for the return of the proceeds, or fail to respond to the claim after six months from the date the claim was submitted, the investor could bring an action in Superior Court against us for the return of the proceeds from the sale of the principal residence.

This action must be filed within one year from the date we receive the proceeds, or within 90 days from the date of the denial. The law also allows us to offset any of the proceeds as credit to other outstanding debt types.

The taxpayer has one year from the date the proceeds are received by us to file a claim for the return of these funds.

Note: The taxpayer may only claim a refund for those proceeds directly intended to satisfy the underpayment directly attributed to the tax shelter, and from the sale of the personal residence. You can find more information about this topic on our *Hot News Webpage*, at [www.ftb.ca.gov](http://www.ftb.ca.gov). Or call our Tax Practitioner Hotline at 916.845.7057.

# Avoid these errors when claiming child care credit

Here are some questions and answers covering common errors made by taxpayers claiming the Child and Dependent Care Credit.

**Q: Can the same child be claimed as the qualifying person on more than one taxpayer's return? For example, can both parents of a child file separate returns and both claim the same child as the qualifying person?**

A: No. The child can *only* be the qualifying person on *one* taxpayer's return. So if the parents of a child are filing separate returns, only one parent will qualify for the credit, even if both parents pay childcare expenses for this child. If the parents are still married at the end of the tax year, neither parent may qualify for the credit because married taxpayers generally must file a joint return to claim the credit. The refund may be delayed if the same qualifying person is claimed on more than one taxpayer's return.

**Q: What determines which parent qualifies for the credit when the parents are divorced and each parent pays half of the childcare for the same child?**

A: Provided that all the other requirements are met, the custodial parent will qualify for the credit. *Note -- The custodial parent is the parent who has physical custody of the child for the longer period of time during the year.*

Under an exception created especially for *divorced or separated parents*, the child is the qualifying person of the custodial parent even if the custodial parent *cannot* claim the child's exemption credit.

Under this exception the noncustodial parent cannot claim the child as the qualifying person even if that (noncustodial) parent claims the dependent exemption for the child.

This exception applies when all of the

following are true:

1. The parents are one of the following:
  - a) Divorced or legally separated;
  - b) Separated under a written separation agreement; or,
  - c) Married but living apart at all times during the last six months of the year;
2. One or both parents had custody of the child for more than half the year;
3. One or both parents provided more than half of the child's support for the year and;
4. If the custodial parent is not claiming the child as a dependent, it was because either:
  - a) The custodial parent signed Form 8332, *Release of Claim to Exemption for Child or Divorced or Separated Parents*, or a similar statement, agreeing not to claim the child dependent exemption for the year, or;
  - b) The noncustodial parent provided at least \$600 for the child's support and can claim the child's dependent exemption under a pre-1985 decree of divorce or separate maintenance, or written agreement.

**Q: If the parents of a child were never married to each other, but have been separated at all times during the last six months of the year, is the child always the qualifying person of the custodial parent?**

A: If the parents were never married to each other, the previously-mentioned exception for divorced or separated parents *does not* apply. The child will be the qualifying person of the parent who qualifies to claim the dependent exemption credit for the child. Thus, all the dependent requirements must be met including the requirement that the taxpayer provides over half the child's total support for the calendar year. To meet the support test, the amount of support the taxpayer provided to the child must be compared to the entire

amount of support the child received from all sources.

All sources include (but are not limited to) the amount provided by:

- Others, such as the other parent or other members living in the home;
- The child's own funds; and
- Outside sources such as food stamps and *temporary assistance for needy families* provided by the state.

**Q: The parents of a 3-year old child were never married. The noncustodial parent pays for all the childcare and qualifies to claim the dependent exemption credit for the child. The custodial parent has sole physical custody and the noncustodial parent has weekend visitation. Does the noncustodial parent qualify for the credit?**

A: No. To qualify for the credit, the taxpayer and the qualifying person must live together and it must be the primary home of the taxpayer and the qualifying person. In this situation the child's primary home is with the custodial parent, thus; the noncustodial parent does not qualify for the credit.

**Q: Can the credit be claimed if the taxpayer uses the married filing separate filing status?**

A: Yes. A taxpayer that uses the *married filing separate* filing status may claim the credit if all the other credit requirements are met and all the following conditions apply:

1. The qualifying person lived in the taxpayer's home for more than half the year.
2. The taxpayer paid more than half the cost of keeping up the home for the year.
3. The spouse did not live in the taxpayer's home at any time during the last six months of the year.
4. The taxpayer can claim the dependent

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# California Franchise Tax Board

## 2002 Information Directory

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### Members of the Board

Chair .....	Kathleen Connell, State Controller
Member .....	John Chiang, Chairman, State Board of Equalization
Member .....	B. Timothy Gage, Director of Finance

**Executive Officer** ..... Gerald H. Goldberg

**FTB on the Internet** ..... [www.ftb.ca.gov](http://www.ftb.ca.gov)

### Tax Practitioner Services

✓ Hotline (not toll-free) .....	916.845.7057
✓ Electronic Correspondence (Fax) .....	916.845.6377
✓ Personal Income Tax Collection (Fax) .....	916.845.0494
✓ Business Entity Tax Collections (Fax) .....	916.845.0145

### Interactive Voice Response (IVR)/Automated Telephone Service

FTB's automated telephone system provides services in both English and Spanish to callers with touch-tone telephones. Callers may listen to recorded answers to more than 160 frequently asked questions about state income taxes, homeowner and renter assistance, and renter's credit. Callers may also order tax forms, verify the status of their personal income tax refund, and confirm recent payment amounts and dates. These services are available 24 hours a day, seven days a week. Callers may also order most Bank and Corporation tax forms between 6 a.m. and 8 p.m., Monday through Friday.

From within the United States .....	800.338.0505
From outside the United States (not toll-free) .....	916.845.6600

### General Toll-Free Telephone Service (Taxpayer Services Center)

Telephone assistance is available from 7 a.m. until 8 p.m. Monday through Friday and from 8 a.m. until 5 p.m. on Saturdays. We may modify these hours without notice to meet operational needs.

From within the United States, call .....	800.852.5711
From outside the United States, call (not toll-free) .....	916.845.6500

### Assistance for Persons With Disabilities

We comply with the Americans with Disabilities Act. Persons with hearing or speech impairments call:

From TTY/TDD .....	800.822.6268
For all other assistance .....	800.852.5711

# Where to Call or Write

**Note -- If an address is not shown use:**

Unit Name  
Franchise Tax Board  
PO Box 1468  
Sacramento CA 95812-1468

**A**

Accounting Period/Method Change .....916.845.7057  
Change of Accounting Method/Period  
Franchise Tax Board  
PO Box 1998  
Rancho Cordova CA 95741-1998  
Application for Revivor .....916.845.7057

**B**

Bad Checks, Status of .....916.845.3725  
Bank and Corporation Collections .....888.889.8876

**C**

Claims for Refund .....916.845.7057  
Corporation Filing Enforcement .....800.478.7194

**D**

Decedents, General Information .....916.845.7057  
Deductible Dividends, Percent of .....916.845.4138  
Delinquent Accounts, Collection of .....916.845.7057  
Delinquent Child Support Collections .....916.845.4010  
Delinquent Child Support Collections  
Franchise Tax Board  
PO Box 460  
Rancho Cordova CA 95741-0460  
Delinquent Corporations/  
Limited Partnerships .....800.478.7194  
Delinquent Court-Ordered Debt .....916.845.4064  
Court-Ordered Debt Collections  
Franchise Tax Board  
PO Box 1328  
Rancho Cordova CA 95741-1328  
Delinquent Industrial Health &  
Safety Debt .....916.845.5537  
Industrial Health & Safety Collections  
Franchise Tax Board  
PO Box 1146  
Rancho Cordova CA 95741-1146

Delinquent Vehicle Registration (DMV) ...888.355.6872  
Vehicle Registration Collections  
Franchise Tax Board  
PO Box 419001  
Rancho Cordova CA 95741-9001

Disclosure Office .....916.845.3226

**E**

e-file Electronic Funds Transfer .....916.845.4025  
Practitioners only .....916.845.0353  
Fax .....916.845.0287  
Electronic Funds Transfer  
Franchise Tax Board  
PO Box 1468  
Sacramento CA 95812-1468  
Equal Employment Opportunity Office ....916.845.3651  
Estate Tax Certificate .....916.845.4210  
PIT -- Fiduciary Audit Tax Certificate Unit  
Franchise Tax Board  
PO Box 1468  
Sacramento CA 95812-1468

Estates, General Information .....916.845.7057  
Exempt Organizations/Status/Applying for ..916.845.4171

**F**

Filing Enforcement Notice Information  
**[www.ftb.ca.gov/bills/index](http://www.ftb.ca.gov/bills/index)**  
**email: [filing\\_enforcement@ftb.ca.gov](mailto:filing_enforcement@ftb.ca.gov)**  
Financial Institution Data Match .....916.845.6304  
FIDM  
Franchise Tax Board  
PO Box 460  
Rancho Cordova CA 95741-0460  
Forms, To order .....800.338.0505  
Download from the Internet ..... **[www.ftb.ca.gov](http://www.ftb.ca.gov)**  
Tax Forms Request  
Franchise Tax Board  
PO Box 307  
Rancho Cordova CA 95741-0307  
Forms Design .....916.845.3442

**H**

Head of Household .....800.555.4005  
Homeowner and Renter Assistance  
From within the United States .....800.852.5711  
From outside the United States .....916.845.6500

## Where to Call or Write



Information Returns .....	916.845.6304
Innocent Spouse Program .....	916.845.7072
Innocent Spouse Program	
Franchise Tax Board	
PO Box 2952	
Sacramento CA 95812-2952	
Installment Agreements .....	800.689.4776
	916.845.4470
Interagency Intercept	
From within the United States .....	
From outside the United States .....	
Investigations .....	916.845.4113
Involuntary Conversions, Ext./Time .....	916.845.7057



Jeopardy Assessments .....	916.845.5211
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Legal Rulings/Notices (requests for) .....	916.845.3309
<b><a href="http://www.ftb.ca.gov/law_legis">www.ftb.ca.gov/law_legis</a></b>	
Legal Branch	
Franchise Tax Board	
PO Box 1720	
Rancho Cordova CA 95741-1720	
Legislation, Obtain a Specific Bill	
<b><a href="http://www.leginfo.ca.gov">www.leginfo.ca.gov</a></b>	
Legislative Bill Room	
State Capitol Rm B-32	
Sacramento CA 95814	

Legislation, Policy/Administrative Issues ...	916.845.4326
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Letter of Good Standing (request for) .....	916.845.7057
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Magnetic Tape Coordination .....	916.845.3778
Manufacturers' Investment Credit	
<b><a href="http://www.ftb.ca.gov/geninfo/credits/mic/references">www.ftb.ca.gov/geninfo/credits/mic/references</a></b>	



Nonresident, Requirements to File (PIT) ...	916.845.7057
Nonresident Withholding Forms by Fax ...	800.998.3676

Nonresident Withholding .....	916.845.4900
	888.792.4900

**[www.ftb.ca.gov/geninfo](http://www.ftb.ca.gov/geninfo)**

**email : [ca\\_nrws@ftb.ca.gov](mailto:ca_nrws@ftb.ca.gov)**

Nonresident Withholding  
Franchise Tax Board  
PO Box 651  
Sacramento CA 95812-0651



Offers in Compromise .....	916.845.4787
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Package X .....	916.845.7070
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**[www.ftb.ca.gov/education/packageX](http://www.ftb.ca.gov/education/packageX)**

Package X  
Franchise Tax Board  
PO Box 2708  
Rancho Cordova CA 95741-2708

Personal Income Taxes Filing	
Enforcement .....	800.545.5009

Personal Income Taxes Notice of	
Proposed Assessment .....	800.895.5440

Personal Income Taxes Collections	
Questions Answered (Fax) .....	916.845.0494

Personnel .....	916.845.3650
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Political Reform Audit .....	916.845.4829
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Power of Attorney (Fax) .....	916.845.0523
Power of Attorney	
Franchise Tax Board	
PO Box 2828	
Rancho Cordova CA 95741-2828	

Public Affairs .....	916.845.4800
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Returns, Request for Copies (Prior Years)	
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Personal Income Tax .....	916.845.5375
FTB Information Storage-RID	
Franchise Tax Board	
PO Box 942867	
Sacramento CA 94267-0001	

Bank & Corporation Tax .....	916.845.5116
FTB Information Storage-RID	
Franchise Tax Board	
PO Box 942857	
Sacramento CA 94257-0560	

Returns, Requirements to File .....	916.845.7057
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## Where to Call or Write

### S

#### Secretary of State

**www.ss.ca.gov**

Secretary of State  
1500 11th Street  
Sacramento CA 95814

Corporation Status .....916.653.7315

Corporate Name Availability .....916.654.7960

Corporate Officers .....916.657.3537

Settlement Bureau .....916.845.3316

Fax .....916.845.4747

Settlement Bureau  
Franchise Tax Board  
PO Box 3070  
Rancho Cordova CA 95741-3070

Small Business Outreach .....916.845.7565

Fax .....916.845.5047

Speakers' Bureau (Requests for Speakers) .....916.845.5257

**email: speakersbureau@ftb.ca.gov**

**www.ftb.ca.gov/education**

Speakers' Bureau  
Franchise Tax Board  
PO Box 520  
Rancho Cordova CA 95741-0520

Suspended Corp./Revivor/Restoration .....916.845.7161

### T

Tax Clearance Certificates .....916.845.4124

Tax Clearance Certificates/  
Exempt Corporations .....916.845.4171

Tax News Newsletter .....916.845.7070

**email: Tax\_e-News@ftb.ca.gov**

**www.ftb.ca.gov/education/taxnews**

Tax News Editor  
Franchise Tax Board  
PO Box 2708  
Rancho Cordova CA 95741-2708

#### Tax Practitioner

Hotline .....916.845.7057

Fax .....916.845.6377

Taxpayer Advocate Bureau (Fax) .....916.845.6614

**www.ftb.ca.gov/taxpayer\_advocate**

Taxpayer Advocate Bureau  
Franchise Tax Board  
PO Box 157  
Rancho Cordova CA 95741-0157

#### Taxpayer Services Center

From within the United States .....800.852.5711

From outside the United States .....916.845.6500

Termination of S Corporation Election .....916.845.7057

Professional Resources and Education  
Section PUC 728-KB  
Franchise Tax Board  
PO Box 1468  
Sacramento CA 95812-1468

Trusts, General Information .....916.845.7057

### V

Volunteer Program .....916.845.4109

Public Education Team  
Franchise Tax Board  
PO Box 651  
Sacramento CA 95812-0651

### W

Water's-Edge .....916.845.7057

Professional Resources and Education  
Section PUC 728-KB  
Franchise Tax Board  
PO Box 1468  
Sacramento CA 95812-1468

# Demystifying nonfiler proposed assessments

If a client ever comes to you with a copy of a nonfiler proposed assessment, you now can go online and learn how we arrived at the total income figure shown on the notice.

Our notice now includes an *Income Reference Sheet* that describes exactly how the income figure was calculated (including a line-by-line breakdown of each income item included in the total). If the total is based on actual amounts reported (such as wages or interest income), it will say so.

If it includes our estimation of the client's

income, the reference sheet will describe the method(s) we used to arrive at the estimate.

For example, if the proposed assessment is issued because the taxpayer possesses a professional license, the income reference sheet will explain that the estimate is calculated based on the average income for individuals in that type of business.

The revised nonfiler *Notice of Proposed Assessment* was just one of the forms that received a facelift when our new nonfiler system was implemented last year.

Many of the revisions were a direct result of tax practitioner and focus group input. You may have already noticed the revised requests for tax return issued by the nonfiler program, that incorporate the use of color and a graphical image of a calendar to show when the response is due.

These changes were all made in an attempt to make our notices more clear and less intimidating to the taxpayers that receive them, as well as you, the representatives, who have to interpret them.

## Avoid these errors when claiming child care credit

*Continued from page 8*

exemption credit for the qualifying person. Or, the reason the taxpayer cannot claim the qualifying person as a dependent is one of the following reasons:

- a) The taxpayer stated in writing that the spouse may claim the dependent exemption that the taxpayer is entitled to; or,
- b) The spouse provided at least \$600 of support for the child and claimed the dependent exemption credit for the child under a pre-1985 written agreement.

### **Q: Do full year nonresidents qualify for the credit?**

**A:** Generally, full-year nonresidents *do not* qualify for the credit. To qualify for the credit, the taxpayer's main home (where the taxpayer and qualifying person live) must have been in California.

## State releases child, dependent care credit form and publication

California has a new form for claiming the credit. For tax year 2001, use Form FTB 3506, *Child and Dependent Care Expenses Credit*. In addition to the information the federal form requires, the California form also requires:

- Types and amounts of nontaxable funds. (Public assistance benefits cannot be used to meet the *keeping up the home test*.)
- Telephone number of the care provider.
- Qualifying person's year of

birth (or note if disabled).

- Percentage of time the qualifying person spent in the taxpayer's California home.

Form FTB 3506 also has a section for nonresident and part-year residents to compute the credit.

California also has a new publication for this credit, FTB Pub 1025, *Child and Dependent Care Expenses Credit: Do I Qualify?* The new publication contains general information designed to help individual taxpayers decide if they qualify for the credit.



# Time to order 2001 Package X

The 2001 edition of our California Package X will come in a single volume, not two, as we reported earlier this month in the November 2001 Tax News. We are still accepting orders for the 2001 California Package X.

The 2001 California Package X comes in both paper and electronic formats. The two paper versions; bound and loose-leaf, cost \$17 plus sales tax. The best value, however, is the CD-ROM for Windows version. It costs \$15 (plus sales tax) and comes with:

- 2001 California Package X forms
- 2001 Internal Revenue Service Package X forms
- Many fillable forms
- California Package X forms for the four previous years
- Information on electronic filing (e-file)

The CD-ROM also has a search feature so that you can locate references to special words or terms in both the tax forms and instructions. And in March, you will receive a second disk with updated forms. The federal forms will arrive on a separate disk.

You can use the CD-ROM if you have:

- A 486DX or Pentium computer with a processor speed of 33 megahertz or faster.
- Microsoft Windows 95, 98, 2001 or NT 4.0 (or later versions).
- Eight megabytes of RAM.
- Double speed or greater CD-ROM drive capable of reading ISO 9660 format.
- VGA, SVGA or higher resolution color video display/adaptor.
- PostScript Windows-compatible printer or Hewlett-Packard LaserJet III and above with one megabyte of user RAM.

When ordering your Package X:

- Do not use a form from a previous year. Using an outdated order form

will delay your order, even if you cross out the year and write in 2001.

- Make any necessary corrections to the name and mailing address printed on the form.
- Provide your current telephone number.
- Add the amounts for your Package X and Tax News orders, and apply the appropriate amount of sales tax to the Package X order based on the county of your residence. (Refer to the sales tax table provided on this page.) Remember: Do not apply sales tax to the Tax News order amount.
- Be sure to enclose your check or money order, payable to the "Franchise Tax Board." Orders without payments are not processed. Please do not send cash.

Mail the order form and your check or money order to:

Package X/Tax News  
PO Box 2708  
Rancho Cordova CA  
95741-2708.

## Attention Tax News electronic version customers:

If you are reading an electronic version of this issue, you will not find an order form. If you did not receive a personalized order form either in your print version of Tax News or in the mail, go to our webpage and download an order form. Here's how:

- Go to our Package X webpage at [www.ftb.ca.gov/education/packageX](http://www.ftb.ca.gov/education/packageX).
  - Complete the order form.
- Follow the instructions provided. Be sure to add the amounts for your Package X and the Tax News orders, and apply the appropriate amount of sales tax to the Package X order

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## Sales Tax

California residents ordering Package X must add sales tax to their total, based on their county of residence. Remember: Do not add sales tax to your Tax News amount. Here are the sales tax rates for California's counties:

Alameda .....	8.25%	Marin .....	7.25%	S. Luis Obispo ..	7.25%
Alpine .....	7.25%	Mariposa .....	7.75%	San Mateo .....	8.25%
Amador .....	8.25%	Mendocino .....	7.25%	Santa Barbara ...	7.75%
Butte .....	7.25%	Merced .....	7.25%	Santa Clara .....	8.25%
Calaveras .....	7.25%	Modoc .....	7.25%	Santa Cruz .....	8%
Colusa .....	7.25%	Mono .....	7.25%	Shasta .....	7.25%
Contra Costa ...	8.25%	Monterey .....	7.25%	Sierra .....	7.25%
Del Norte .....	7.25%	Napa .....	7.75%	Siskiyou .....	7.25%
El Dorado .....	7.25%	Nevada .....	7.375%	Solano .....	7.375%
Fresno .....	7.875%	Orange .....	7.75%	Sonoma .....	7.50%
Glenn .....	7.25%	Placer .....	7.25%	Stanislaus .....	7.375%
Humboldt .....	7.25%	Plumas .....	7.25%	Sutter .....	7.25%
Imperial .....	7.75%	Riverside .....	7.75%	Tehama .....	7.25%
Inyo .....	7.75%	Sacramento .....	7.75%	Trinity .....	7.25%
Kern .....	7.25%	San Benito .....	7.25%	Tulare .....	7.25%
Kings .....	7.25%	San Bernardino ..	7.75%	Tuolumne .....	7.25%
Lake .....	7.25%	San Diego .....	7.75%	Ventura .....	7.25%
Lassen .....	7.25%	San Francisco ...	8.50%	Yolo .....	7.25%
Los Angeles .....	8.25%	San Joaquin .....	7.75%	Yuba .....	7.25%
Madera .....	7.75%				

# Small Business Fairs

## February 22, 2002

Los Angeles  
West Los Angeles College  
4800 Freshman Drive  
Culver City, CA 90230  
9 a.m. to 2 p.m.  
310.342.1080  
E-mail: Lataxday@boe.ca.gov

## March 8, 2002

Long Beach/South Bay  
Long Beach Convention Center  
100 South Pine Ave.  
Long Beach, CA 90802  
9 a.m. to 4 p.m.  
310.516.4330  
E-mail: Lbtaxday@boe.ca.gov

## April 11, 2002

Riverside County  
Riverside Convention Center  
3443 Orange St.  
Riverside CA 92501  
8:30 a.m. to 4 p.m.  
909.680.6705  
E-mail: Rivtxday@boe.ca.gov

## May 17, 2002

Bay Area - San Francisco  
Hiram Johnson State Building  
455 Golden Gate Ave  
San Francisco CA 94102-3625  
8:30 a.m. to 2:30 p.m.  
415.703.5432  
E-mail: Basmbus@boe.ca.gov

## June 21, 2002

Norwalk  
Rio Hondo College  
3600 Workman Mill Rd.  
Whittier, CA. 90601  
8:30 a.m. to 3 p.m.  
562.466.1539  
E-mail: Norsmbus@boe.ca.gov

## October, 18, 2002

San Diego  
Point Loma Nazarene University  
3900 Lomaland Dr.  
San Diego, CA. 92106-2800  
8:30 a.m. to 4 p.m.  
760.744.6284  
E-mail: Sdtaxday@boe.ca.gov

## Order 2001 Package X

*Continued from page 10*

based on the county of your residence. (Refer to the sales tax table provided on page 10.) Remember: Do not apply sales tax to the Tax News order amount.

- Click the submit button.
- Print the completed order form and mail it along with your check or money order to:  
Package X/Tax News  
PO Box 2708  
Rancho Cordova CA  
95741-2708

For more information about ordering your 2001 Package X or subscribing to Tax News, visit our webpage at [www.ftb.ca.gov/education/index](http://www.ftb.ca.gov/education/index) or call us at 916.845.7070.

## Not all merging entities are eligible for expedited merger process

In our September/October Tax News, we told you that merging corporations would face fewer delays in California as a result of Senate Bill 324. We stated that with the new law, the Secretary of State can file any merger without obtaining a certificate of satisfaction from us, provided the surviving corporation is a domestic corporation or a foreign (non-California-incorporated) corporation qualified to do business in this state.

What we should have said was:

... With the new law, the Secretary of State can file a merger without

obtaining a certificate of satisfaction from us, provided the surviving corporation is a domestic corporation or a foreign (non-California-incorporated) corporation qualified to do business in this state **and the disappearing corporation is a domestic corporation.**

The rest of the article is accurate. Should you have any questions about how SB 324 changed the corporation merger process in California, call our Tax Practitioner Hotline at 916.845.7057.

# Help speed up processing of amended returns

Amended personal income tax returns take longer to process, mainly because of their complexity and constraints in our automated processing systems.

Three of every four amended returns are manually processed and all amendments to nonresident returns are manually processed.

There are ways you can help us speed up the processing of your clients' amended returns:

- If you are amending a nonresident personal income tax return or amending to a nonresident status, complete a Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, using the amended information and attach it to the Form 540X, Amended Individual Income Tax Return.
- Only file an amended return if an original return has been filed. This includes filing a Form 540X in response to a filing enforcement inquiry or assessment.
- Don't file an amended return just to make a payment.
- Be sure to use exactly the same taxpayer identification number(s) and names spelled in the same way as they are shown on the original return. But use the client's current address.
- Always enter the correct amounts in Column A \_ as originally reported or adjusted by FTB. If your client received a Return Information Notice or Notice of Tax Change (math errors), had a proposed assessment, or made a previous amendment, Column A should reflect these changes.
- Be sure to make the entries on line 7a, tax method used and 7b, tax.
- If you are not amending the withholding or excess State Disability Insurance amounts on the amended return, enter these amounts in exactly the same manner as on the original return. For example, if the amount was rounded on the original return and you use the exact dollars and cents on the amended (or visa versa) the return will be stopped in processing.

## Completing Form 568? Follow this checklist

Here's a handy checklist to help you avoid some of the return preparation errors we routinely find in Form 568, Limited Liability Company (LLC) Return of Income.

### Entity and return information, page 1

- Are both Account Period Beginning and Accounting Period Ending dates included at the top of the return?
- Is the 12-digit Secretary of State identification number included? This should be the same number as that organized/registered through the California Secretary of State's office (SOS).
- Did you use the correct format when writing the 12-digit SOS identification number? Here's a breakdown of the old format:

10**19962680**18

10 = Record Type Identifier (internal)

**CCYYJJJ** = Century, Year and Julian the record was entered

into the system.

**ZZZ** = Computer assigned sequential number for unique identification.

And here's the new format:

**199626810018**

**CCYYJJJ** = Century, Year and Julian the record was entered into the system.

1 = Record Type Identifier (internal)

**ZZZZ** = Computer assigned sequential number for unique identification.

- Is the LLC's full legal name included (no abbreviations)? Is punctuation exact? The name should be the same name as organized/registered through the SOS.
- Is the LLC's current address included?
- Is the principal business code, Line C at the top of the return correct?
- Is this a final return? If so, check the

applicable box on Line I at the top of the return.

- Have all questions been carefully answered on page 1 Form 568? Is the total income on Line 1 equal to or greater than Schedule B line 1C?

Is the corporation's payment information accurate? Line 6: Amount paid with form FTB 3537 and 2000 form FTB 3522; Line 7: Overpayment from prior year; Line 8: 2000 Nonresident Withholding Credit. If filing as a single member, has the appropriate information above the signature line been completed?

### Other Information, page 2 and subsequent

- Is the Schedule T filled out correctly and has the information been brought over to Side 1, Line 4?
- Is the phone number listed?

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## Tax Practitioner Services

The Tax Practitioner Hotline hours for the **2002 filing season** are as follows:

- Monday through Friday:  
8 a.m. to 5 p.m.

From March 2 through April 13, 2002

- Saturdays:  
8 a.m. to 4:30 p.m.

The Tax Practitioner Hotline will not be open on state holidays and will not be open on Sunday, April 14, 2002.

### Tax Practitioner Hotline

Telephone . . . . . 916.845.7057  
Fax . . . . . 916.845.6377

### Personal Income Tax Collection

Fax . . . . . 916.845.0494

### Business Entities Collection

Fax . . . . . 916.845.0145

### FTB e-file Help Desk

Telephone . . . . . 916.845.0353

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